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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

UNDP REGULAR FUNDING AND CASH FLOW MANAGEMENT

I. INTRODUCTION

1. In its decision 99/1 of 29 January 1999, the Executive Board reaffirmed its decision 98/23 of 23 September 1998 on the UNDP funding strategy, a decision in which it had also reaffirmed the need to reverse the decline in regular resources and to establish a mechanism to place UNDP regular funding on a predictable basis.

2. The Executive Board designated the second regular session, starting in 1999, as the time when all members would announce their voluntary contributions to regular resource and payment schedules for the current year. The Board encouraged early payment and in its decision 99/1 requested that all States members of UNDP communicate their voluntary contributions to regular resources and a schedule of payments, in writing, to the Secretariat by the beginning of April at the latest.

3. The early receipt of this information facilitates cash-flow management in the organization.

II. CONTRIBUTIONS PAYMENT PERFORMANCE IN 1999

4. The present report is submitted in the spirit of the more dynamic and transparent dialogue on UNDP core funding called for by the Executive Board and to provide a first indication of the payment experience of contributions in 1999. Because of the early date at which the report had to be prepared and the time needed to compile full information on the payment of contributions, the report contains details only of the payment to UNDP of contributions pledged in 1999 from donors of the Development Assistance Committee of the Organisation for

Economic Cooperation and Development (OECD/DAC). A more detailed review, covering the contributions of all countries, will be provided to the Board in connection with the funding session to be held at the second regular session of the Board in April 2000.

5. The Administrator wishes to express his appreciation to those donors who were able to pay their contributions in full to UNDP early in 1999 and to those donors able to pay at least a portion of their 1999 contributions in April or earlier. Nevertheless, the overall experience in the payment of contributions for 1999 remained suboptimal. A review of performance of major donors' payment to UNDP against actual pledges and payment schedules in the light of actual experience in 1999 reveals the following:

(a) A total of 17 major donors announced specific payment schedules for their 1999 voluntary contributions to UNDP, with a combined value of $584 million;

(b) Of the 17 countries announcing payment dates, only 8 fully met the dates they had specified (for a value of $332 million). Another 4 countries ($127 million) effected payments within one month of the originally specified dates;

(c) Four countries ($110 million) effected payments more than one month later than specified and one country ($12 million) did not make any payment in 1999.

6. The cash flow of voluntary contributions from major donors in 1999 did not keep pace with that of 1998. By the end of the third quarter of 1999, only 66 per cent of pledged contributions had been received versus 76 per cent in the comparable period in 1998. As UNDP entered the last month of 1999, a total of $157 million, or some 22 per cent of 1999 pledges, remained unpaid, versus $18 million, or 2 per cent of 1998 pledges at 30 November 1998. The graphs presented in the annex illustrate the volatility that UNDP has experienced in contributions cash flow over the past five years.

7. Irregular and/or delayed cash inflows to the organization introduce an element of uncertainty that can impact on programme delivery. Delayed payments also significantly increase the likelihood of a need to draw against the funds of the operational reserve to cover working capital needs. In fact, based on preliminary estimates and subject to details of final expenditure apportionment, it appears most likely that UNDP utilized up to $20 million from its operational reserve to meet its cash flow needs through 30 November. Upon receipt of contributions in December, the reserve was fully replenished and at year-end, the organization carried a small working-capital balance, exclusive of reserves, representing less than the working capital needs for two months. Such a cash flow trend is particularly troublesome given the organization's commitment to and success in recent years in reducing its balance of liquid resources to a low level.

8. At the date of preparation of the present report, the Administrator considers that there is a strong possibility that the regular resources reserve will again be drawn upon during February and/or March 2000 to meet regular resource cash needs. This estimation is based on the payments experience of

1999, in which a total of only $84 million in voluntary contributions was received over the first three months of the year.

9. In light of the above and given the increased risk to UNDP in 2000, the Administrator again requests all contributing countries to make every effort to expedite the payment of contributions as early in the calendar year as possible.

III. HEDGING ACTIVITY IN 1999

10. It will be recalled that an important element of the core funding strategy was improved predictability of voluntary contributions to regular resources, including fixed payment schedules that would permit the organization to establish a known US dollar value of its contributions. This is achieved through the use of financial instruments, which ensure, in advance, a fixed US dollar amount for the conversion of non-US dollar contributions. The contractual nature of these financial instruments requires that settlements be effected at the contract dates, hence the importance of reliable amounts and strict adherence to payment schedules. As noted above, a significant portion of 1999 pledged contributions were not received in accordance with the payment dates announced by donors.

11. During 1999, the US dollar retained its strength throughout the year, appreciating by some 15 per cent against the Euro from its inception to the end of the year. UNDP was able to engage in hedging instruments to set the value of approximately $160 million (valued at the UN rates of exchange in operation in April 1999) in non-dollar denominated contributions. The US dollar value of the contributions hedged would have been reduced by some $8.8 million had these hedges not been in place. The total amounts hedged were affected by the lack of definitive information concerning amounts and/or payment schedules early in the year for several major contributions, as well as a decision to take a prudent approach to hedging in 1999 in light of the lack of historical experience with the announcement of specific payment schedules.

12. In order to establish the US dollar value of contributions at known levels to the maximum extent possible, the Administrator again requests all donors to provide a set schedule of payments and to ensure that the payment schedule is honoured. The Administrator reminds the Executive Board that the purpose of hedging strategies is not to generate gains on exchange of contributions but rather to ensure a known value of the contributions in US dollar terms for stability and programme planning purposes.

IV. EXECUTIVE BOARD ACTION

13. The Executive Board may wish to:

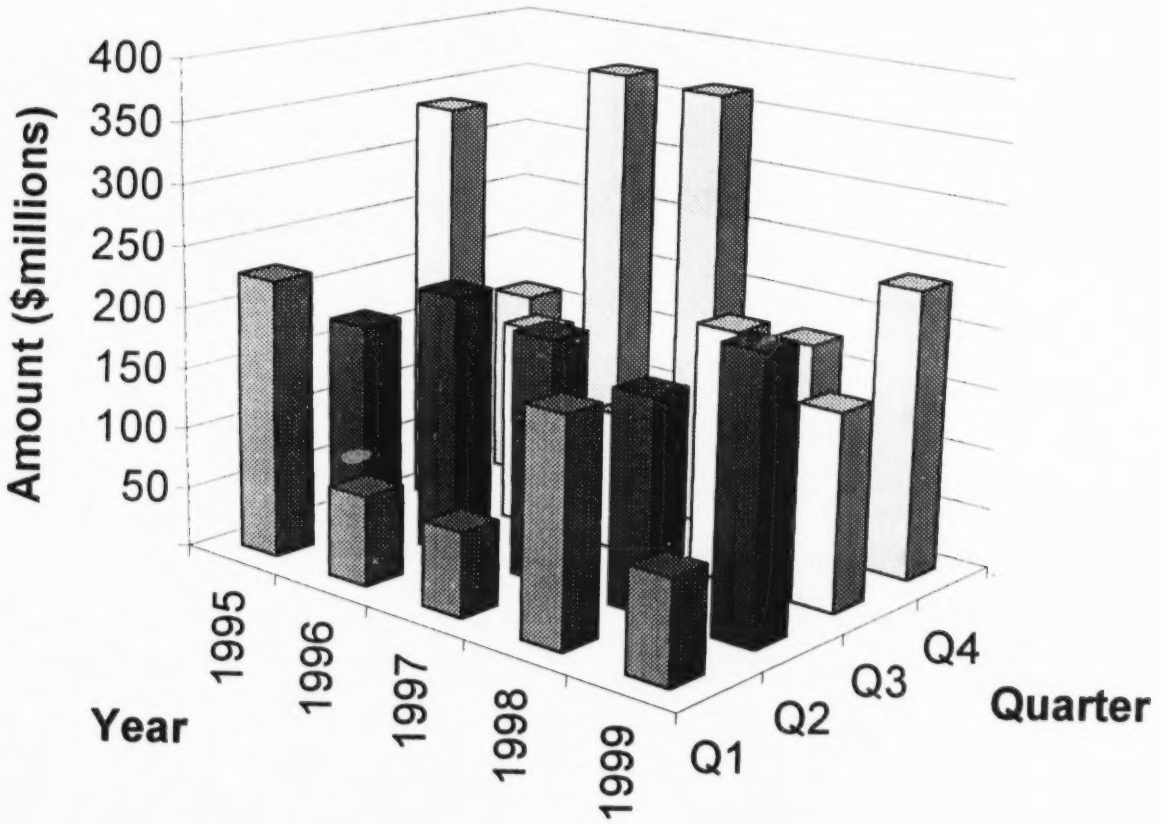
(a) Take note of the present document;

(b) Note the serious impact of delayed payments on cash-flow management as reported in the document;

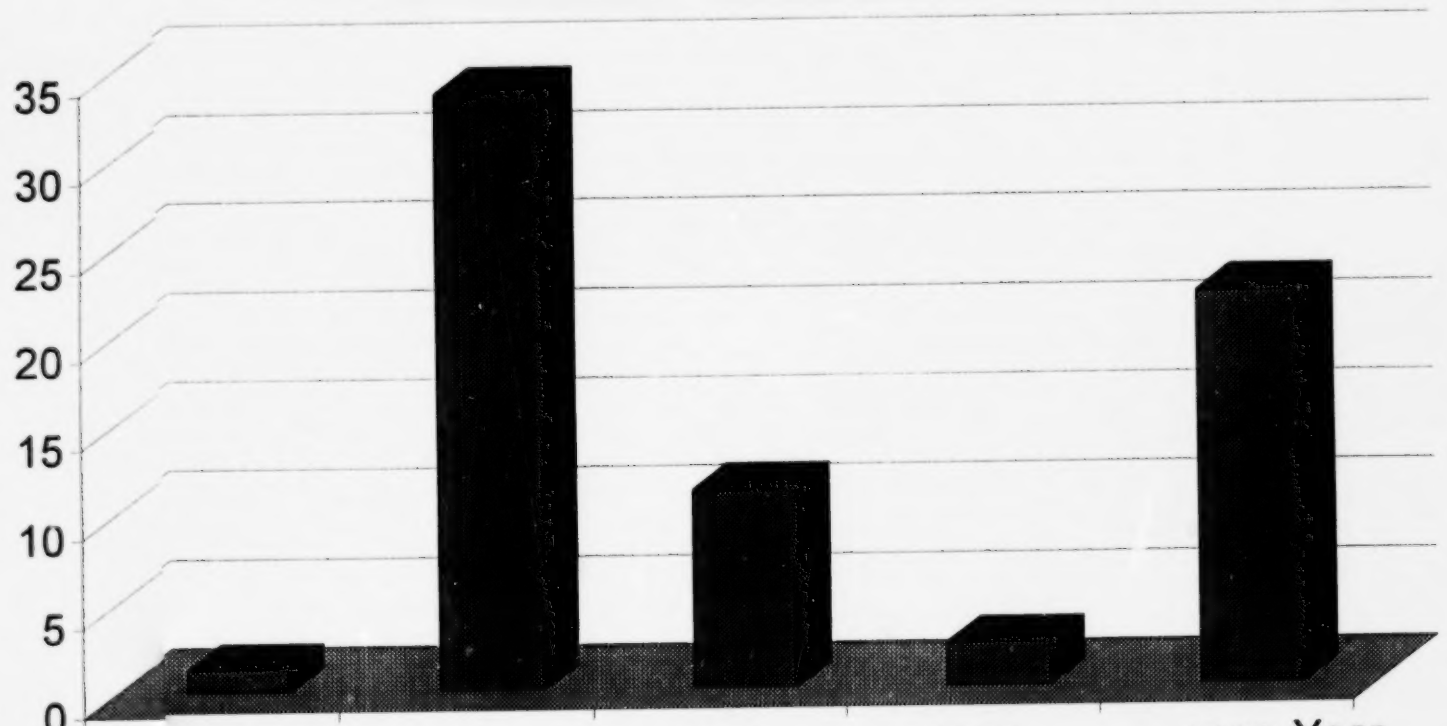
(c) Note the importance of officially communicating regular resources contributions for 2000 as early in the year as possible;

(d) Support the recommendation of the Administrator for a comprehensive implementation of the elements of the UNDP funding strategy (decision 98/23) concerning the announcement of pledges and adherence to a fixed payment schedule.

Graph 1. UNDP voluntary contributions: Pattern of receipts by quarter



Graph 2. UNDP voluntary contributions: Percentage unpaid at 1 December



	1995	1996	1997	1998	1999
Percentage	1.2	33.5	11.1	2.4	22.0